

**Supplemental Reporting Document
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September 2010 Investment Committee Meeting
(July 2010 Reporting Period)**

Quarterly Reports

Securities Lending Earnings



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September 13, 2010

SUPPLEMENTAL ITEM

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Securities Lending Earnings
(Quarter Ended June 30, 2010)
- II. PROGRAM:** Securities Lending
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Earnings for the quarter ended June 30, 2010, are presented to the Investment Committee for information.

	Average Lendable Assets (\$000)	Average % on Loan	Earnings (Annualized)	Income to CalPERS (\$000)
Asset Class Earnings				
Global Equities	\$53,427,924	25%	23 bp	\$31,093
Global Fixed Income	\$8,524,520	80%	16 bp	\$3,477
Total Program Earnings	\$61,952,444			\$34,570
Unrealized gain on internal collateral reinvestment				\$57,304 *
Total Program Earnings including unrealized gain				\$91,874

*Unrealized gains resulted from CalPERS use of mark-to-market accounting on the valuation of the internal cash pool, which is not market convention on collateral reinvestment pools.

Policy Violations:

Our external cash collateral pool violated the policy during the second quarter of the calendar year when a Student Loan Asset Backed Security (ABS) of Sallie Mae Student Loan Trust was downgraded to AA by S&P. Policy requires a minimum ABS rating of Aaa/AAA/AAA (Moody's/S&P/Fitch).

Staff has reviewed the security and continues to monitor for opportunities to maximize the value of this position either through out right sale or holding to maturity.

Carry Over Violations:

Eleven Asset Backed Securities from five issuers, one Corporate Note, and two Structured Investment Vehicles (SIV's) with credit quality policy violations carried over into the second quarter of the calendar year. These securities were purchased by external managers and downgraded by Fitch, Moody's and S&P in prior calendar years.

During the second quarter of this calendar year, five Asset Backed Securities from three issuers were removed from the Policy Violation list after paying off.

Staff expects the remaining six Asset Backed Securities and one Corporate Note violations to mature and pay down over the next 18 to 20 months. The SIV's are currently under review and Staff is working to maximize value and will continue to update the Board accordingly.

V. STRATEGIC PLAN:

This program contributes to the achievement of Goal VIII of the Strategic Plan by providing low risk incremental returns to the Fund.

VI. RESULTS/COSTS:

The securities lending program generated approximately \$34 million of revenue for the quarter ended June 30, 2010, including the unrealized gain of \$ 57 million, program earnings for the quarter were \$ 91 million. The average market value of securities on loan for the quarter was \$21 billion.

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